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# Issues

for  
RHODE ISLAND  
MANAGEMENT

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## GOVERNORS' REPORT RECOMMENDS WAYS TO IMPROVE QUALITY OF U.S. WORKPLACE

A new report released by the nation's governors calls the states to forge partnerships among business, government, and institutions of higher learning to improve the quality of the American workforce.

The report, titled *Excellence at Work: Principles and Options for State Action*, was released at the annual meeting of the National Governors' Association.

Governor Edward DiPrete co-chairman of the task force responsible for the report, said, "It is increasingly evident that education and training, business modernization, and human resources development programs must be brought together in order to achieve the productivity gains required for global economic success."

The governor added that employers have to "change with the times." He said they must begin supplying on-site day care centers and flex-time programs, recognizing in many cases that they are dealing with a family, as opposed to an individual. Governor DiPrete also stressed the need to deal with literacy in the workplace. Although such programs may be expensive, more enlightened employers will realize the value of a long-term investment, he said.

The report suggests a series of ways for states to assist employers in developing a competitive workforce. Among the recommendations are ways to train the existing workforce, prepare students for entrance into the workforce, and help in the creation of workbased employee support services.

States are urged to assist business by updating the regulatory environment to permit more flexible work arrangements. Such changes might include amendments to wage and hour legislation.

"The ability of the United States economy to successfully traverse the course ahead will depend upon the skill, innovation and foresight of the private sector," the report concluded.

## INTEREST ON U.S. SAVINGS BONDS TAX FREE (OR TAX REDUCED) WHEN USED FOR COLLEGE EDUCATION

Recently enacted legislation allows interest on U.S. Savings Bonds used for tuition and tuition related expenses to be tax free for most taxpayers for bonds purchased on or after January 1, 1990.

However, for college expenses such as room, board, travel, and books (expenses that are not included in the new legislation), it is recommended that parents, grandparents, godparents and those with nieces and nephews continue to purchase bonds for children under previous regulations. Here's how.

**TAX-FREE INVESTMENT FOR CHILDREN.** Buy U.S. Savings Bonds in your dependant child's name. You may have yourself listed as beneficiary (but not as co-owner or you will incur a tax liability). For gift bonds, the donor has the choice of listing himself/herself as beneficiary or may prefer to list one of the parents as beneficiary. For bonds purchased through payroll savings, a social security number for the first registered owner, in this case the child's is required.

Choose annual reporting if the child's income will not be substantially above \$1,000 a year before your child reaches 14 years of age. (If rates continue in the 7% range, \$14,000 in savings earns about \$1,000 a year). The first year, file a return in the child's name showing interest earned to date and declaring the intent of reporting Savings Bond interest annually. No further returns need be filed until the child's annual unearned income exceeds \$500.

You may also choose to defer reporting of interest on the child's Savings Bonds until he or she reaches age 14, and then report the deferred interest and change to annual reporting, all at the child's tax rate. (The tax law imposes the parent's rate on a child's unearned income in excess of \$1,000 per year before age 14. The first \$500 of a child's unearned income each year is covered by a standard deduction and the next \$500 is taxed at the child's rate.)

**WHEN IS DEFERRED REPORTING ADVISABLE FOR A CHILD?** — The decision is yours, based on financial

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## INTEREST ON U.S. SAVINGS BONDS

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advantage and convenience. Under the Tax Reform Act of 1986, annual reporting means that a return must be filed for any year in which interest on the child's Savings Bonds and other investments exceeds \$500. Deferred reporting may be more convenient and, in some cases, may reduce tax costs. For example, if you are in a 28% tax bracket and begin to save \$225 per month (\$2,700 a year) or more in Series EE Bonds in your child's name at birth, and they earn an average interest rate of 6%, total Federal Income Tax may be lower if you defer reporting of interest until the child is 14 years old. If you save \$200 per month or less for each child, you may pay less tax if you choose annual reporting of interest, since the child's annual \$500 standard deduction may offset the fact that interest on the Bonds exceeds \$1,000 for several years.

*The advantage of deferral to age 14 may be greater if:*

- large amounts of Savings Bonds are purchased when the child is young
- average interest rates are higher than 6%
- the child has additional unearned income
- the parent is in a bracket higher than 28%

*The advantage of annual reporting may be greater if:*

- savings start later or the child was older when the tax law changed
- average interest rates and the minimum rate are lower than 6%
- the parent is in a tax bracket lower than 28%

**NOTE TO PARENTS WHO CHOSE ANNUAL REPORTING IN THE PAST:** If your child's total earnings including interest are substantially over \$1,000 a year, you may decide that it is to your advantage to change the child back to deferred reporting of Savings Bonds interest until age 14, to avoid having the amount over \$1,000 taxed at your rate. To make this change, you must write on the child's behalf to the nearest IRS District Office (using IRS Form 3115) stating:

- the child's name and Social Security number
- your wish to change the child from accrual (or annual) reporting of Savings Bonds interest
- a brief explanation. For example, explain that you chose annual reporting for Savings Bonds based on information in Savings Bonds publications, but under the new tax law that choice is no longer to your child's advantage.

Written IRS permission is required to change back from accrual to deferred (or cash) reporting. Be sure to keep a record of the Bonds' value as of the last date interest was reported annually. Only interest earned after that date should be reported when the Bonds are redeemed.



## ADMITTING TO DRUG ABUSE IN THE WORKPLACE

Admitting a problem exists is the first step towards solving that problem. Yet, when it comes to drug abuse, many employers deny the problem exists in their own environment. The purpose of this article is just to admit that the problem does exist. The statistics cited should convince us of that.

Drug abuse is not a phenomena of the 1990s. It stretches further back than that. In fact, the National Institute on Drug Abuse estimated, based on a survey, that some 6 million workers in the U.S. were engaged in drug abuse. That was sixteen years ago. In another survey done by NIDA, they found that between the years 1972 and 1979, experience with marijuana and cocaine had doubled among youths (12-17) and older adults (over 25). The percentage of cocaine use among young adults (18-25) had tripled and marijuana use had increased from 48 to 68 percent. Since then, we know that drug abuse has been on the increase to the point that it has now reached epidemic proportions in the United States.

The implications are clear. With so many drug abusers abroad in the land, "you can bet the family jewelry that you have some on the payroll and that much of the time they're in no shape to work," says Peter J. Sheridan, writing in Occupational Hazards. What this translates to, says Sheridan, is "excessive absenteeism, vulnerability to accidents, and slipshod job performances."

The National Association on Drug Abuse Problems (NADAP) tells us of the distinction they make on various levels of usage:

"The first level is recreational use, where a person takes the substance simply to experience a high.

"The second level is circumstantial use, where a person takes a substance in a regular fashion in a limited quantity for a specific purpose. Circumstantial use is often a hit-and-run technique for self-medicating or psychic complaints.

"Finally, there is the third level — intensive use — where the person's life starts to center around drugs, where the involvement becomes the primary way they identify themselves and the first characteristic by which others define them. At this level, the individual starts to come apart as a person. The question at this stage is whether the drugs destroy the person or the person destroys the self with drugs. The last stage is marked by a fall-off in job performance. Before that the drug abuser's family and social life have been adversely affected."

Supervisors should not become amateur sleuths, trying to discover if drugs are the reason for poor work performance. Rather, the supervisor should stick to a review of the poor

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### ISSUES

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*The Privatization Decision*, by John D. Donahue.  
Basic Books, 223 pages, \$22.95

Fiorello LaGuardia the colorful and flamboyant former mayor of New York City used to insist that there was no Democratic way and no Republican way to clean the streets. You just cleaned them. When it came to the delivery of basic city services, LaGuardia said, party and ideology were irrelevant. Performance was the only thing that mattered.

LaGuardia would have been surprised, not to say depressed, by some of the debates of the past decade over how to do such workday government jobs as collecting trash, laying asphalt and fixing broken traffic lights. In the past few years, on these sorts of issues, ideology has mattered a great deal.

There is today a liberal way to pick up the trash, and there is a conservative way. The conservative way is to turn it over to private enterprise and trust the free market to get the task done more efficiently and more cheaply. The liberal way is to keep it public, maintain regulatory control and preserve municipal jobs. Most of what has been written on privatization in recent years starts with ideology and proceeds only reluctantly to an examination of real-world evidence. It either touts private enterprise as the morally appropriate answer to almost any potential government service problem, or it raises the specter of privatization as one more step in the retreat of government from proper responsibility to its citizens.

LaGuardia would have found it ridiculous. He is no longer around to say so, but as a reasonable substitute, it is possible to offer John D. Donahue, an assistant professor of government at Harvard. His approach to privatization is a heretical one. He examines all the evidence he can find and concludes that privatization works for some functions and not for others. Ideology is not much help in deciding what to do.

When it comes to garbage, Donahue finds that private collectors do in fact save taxpayers money — provided they are forced to compete with each other. Turning trash pickup over to a private contractor on a monopoly basis is the single worst thing you can do. Private monopolies cost more than the government does. "Private vs. public matters," Donahue says, "but competitive vs. non-competitive matters more."

That's one reason he isn't particularly impressed by one of the more fashionable recent privatization ideas: turning over prisons to private firms.

Donahue concedes that a private corrections firm can attract business from a local government by promising to operate a facility more cheaply in the short run than the government ever could. On the other hand, the private contractor is nearly always going to demand a lease of at least 20 or 30 years, and is going to be operating under monopoly conditions. Even if it's legal to change contractors for poor performance, it is unlikely to be feasible on short notice.

And so a company that decides to save money by worsening the quality of life in its contract prison may be disturbingly free to do so. "There is some reason to fear," he warns, "that instead of being competitive like the trash collection industry, it will be competitive like the nuclear submarine industry — which is to say, not at all."

Competition isn't the only factor Donahue looks at in deciding whether privatization makes sense. He wants to know whether it is possible to define the task in precise terms at the outset, measure how well it has been performed at the end and change contractors if things don't seem to be working out. When all those conditions are present,

privatization can be an appealing option. When they are absent, Donahue says, any local government should think long and hard before accepting the argument that free enterprise will do the job better.

Privatization of government services at the state and local levels increased dramatically in the 1970s and the early 1980s, and has leveled off since then. Still, an enormous range of once-public activities is in private hands now. As of 1984, one survey showed, 57 percent of American localities were contracting out their automobile towing. Some 44 percent were using private contractors to do their legal work.

Lakewood, California, a community of 60,000 people, has privatized so much government that it had only eight city employees!

Donahue has a reasonable amount of confidence in privatization as one of the tools a government should keep in mind at budget time. On the other hand, he has very little confidence in the ability of governments to make sensible decisions about what should be public and what should be private. "Political pressures," he says, "will tend to retain for the public sector functions whose privatization would make sense, and to privatize tasks that would be better left to government."

One can disagree with Fiorello LaGuardia over whether there is a Democratic or a Republican way, a liberal or conservative way, to get the basic jobs of local government done. But even the Little Flower would admit that there is a stupid way and an intelligent way. John Donahue's book is an admirable application of dispassionate intelligence to a subject that can use it.

## EMPLOYMENT LAW CLINIC

A divided U.S. Supreme Court ruled June 21 that government employers may not base decisions on hiring, promotion, transfer and recall after layoff on an individual's support for the political party in power unless party affiliation is an appropriate requirement for effective performance of the position involved. (*Rutan v. Republican Party of Illinois*, 5 IER Cases 673)

Patronage practices impair rather than further preservation of the democratic process by discouraging public employees' free political expression, the court found. Also, the practices in question were not sufficiently narrow intrusions on public-employee First Amendment rights, the court held, since the government's interests in securing effective employees and in implementing its policies can be met by disciplining those whose work is deficient and by appointing high-level policy making employees on the basis of their political views.

Measuring the constitutionality of patronage practices on the basis of whether they are the "substantial equivalent of a dismissal" is unduly restrictive, the court ruled. Deprivations less harsh than a discharge may press employees and applicants to conform their beliefs and associations to some state-selected orthodoxy, the court said.

*Wygant vs. Jackson Board of Education*, 476 US 267, 40 FEP Cases 1321 (1986) is inapplicable, the court adds, since the government is not remedying past wrong. The question in a patronage context is not which penalty is more acute, the court says, but whether the government is pressuring employees to stop exercising their First Amendment rights.



## PERCEPTIONS CAN TRIP YOU UP AT WORK

Next time you assume a colleague is angling for your job or that a certain secretary and the boss are embroiled in a torrid affair, stop. Ask yourself if you have any factual basis for your assumption.

Chances are, you don't.

Most of us frequently misperceive co-workers, bosses and underlings. And we don't even realize it, says Bob Mezoff, president of management consulting firm ODT Associates in Amherst, Mass.

The errors are not due to evil intentions, he says. "For survival purposes, they help us cope efficiently and form an impression of someone, based, for instance, on their clothing or ethnic background."

The danger is that unreliable assumptions will thwart job performance. Thus, at a recent seminar for corporate and government personnel trainers — the people who screen and teach new employees — Mezoff outlined common perception pitfalls and how to overcome them.

- **Halo effect:** Your general impression of someone leads you to an inaccurate judgement of unrelated traits and characteristics. For example, if an employee is conscientious and technically competent, you may conclude he is good at managing.

**Solution:** Make sure your judgements are grounded in factual observations rather than in hunches or impressions.

- **Projection of emotions and traits:** When you feel enthusiastic or depressed about a project, you may assume your co-workers share your mood. Or if you have a dominant trait, such as utter disorganization, you constantly might nag employees to clean their desks.

**Solution:** Monitor your own perceptions to compensate for your tendency to project.

- **Closure:** When we are uncomfortable with incomplete information, we sometimes fill in the blanks and imagine something happened because it seems the most likely explanation. For example, John gives a report to his manager. Later, he learns his report has been shelved. Without knowing what happened, John assumes his manager didn't stick up for the report.

**Solution:** Test an assumption by searching for information that confirms and refutes it. Try to imagine explanations other than what you have assumed.

- **Perceived relationships:** In every office, there is speculation about how colleagues are "related" — as friends, lovers, neighbors, etc. Often your speculation, fueled by colleagues' speculation, causes a remote possibility to snowball into a certainty.

**Solution:** Make sure your assumptions about relationships are explicit and can be affirmed by objective data.

## ADMITTING TO DRUG ABUSE

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performance when confronting an employee, and spell out what continued poor performance will lead to. They should be encouraged to seek help for their problem through the Rhode Island Employee Assistance Program (RIEAP), or outside firm through various civic organizations devoted to helping people with drug problems.

Employers need to recognize that drug abuse is not something that takes place somewhere else. Drug abuse permeates our entire society. Recognizing this can help employers admit that a problem may exist in their workplace, and lead them to take the necessary action to solve the problem.

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